

Press Release

Jyotirmaye Textiles Private Limited

January 04, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 160.85 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 160.85 crore bank facilities of Jyotirmaye Textiles Private Limited (JTPL). The outlook is '**Stable**'.

JTPL was incorporated as a private limited company in 2009. Located in Guntur (Andhra Pradesh), JTPL's spinning units currently have a combined installed capacity of 38880 spindles, manufacturing cotton yarn of counts 10s to 40s. The company also manufactures open ended cotton yarn with counts 6s to 18s and has 2688 rotors. It has a captive wind mill power capacity of 10 mega-watt (MW).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of JTPL to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The company is promoted by Mr. Danda Brahmanandam and Mr. Danda Prasad in 2009; they are also the founder promoters of Thirumala Milk Products Private Limited, leading dairy player in South which was sold to Groupe Lactalis SA in 2014. Currently, the management is led by Mr. Danda Prasad, S/o Mr. Danda Brahmanandam. JTPL started commercial operations in 2011 with 20160 spindles, and gradually expanded to the present levels of 38,880 spindles and 2688 rotors at its plants in Guntur (Andhra Pradesh).

Guntur region is abundant in cotton cultivation and benefits from continuous supply of raw material; besides, the company procures the raw material - cotton from other neighboring states of Tamil Nadu and Maharashtra. To maximise the efficiencies and value addition, it has implemented open ended yarn facility along with other value additions with an investment of about Rs.44.93 crore. Further, it has made investment in wind mills in two phases of 6 MW and 4 MW, which supports about 50 percent of its power requirement. This investment saved the company in power costs to an extent of about Rs.8.00 crore and is a perennial benefit over long term.

The company has a competent management supported by a team of well qualified and experienced second line personnel. To diversify the risk, JTPL entered into overseas markets with exports to Thailand with revenue contribution of about 28 percent. For FY2018, top ten customers of the company contributed ~54 percent of total revenues providing moderate customer concentration risk. Acuité believes that promoters' entrepreneurial experience, strong financial flexibility and experienced team is expected to aid in improving its business risk profile over the medium term.

• Moderate financial risk profile

The company's financial risk profile is marked by moderate capital structure and moderate debt protection metrics. The gearing (debt-to-equity) has improved to 1.68 times as on March 31, 2018 from 2.26 times as on March, 2017 supported by moderate cash accruals and repayment of term loan. Net worth is comfortable at Rs.93.60 crore in FY2018 as against Rs.60.54 crore in FY2017, increased by Rs.33.06 crore due to accretion to reserves and quasi-equity infused by promoters of Rs.19.00 crore. Net worth includes quasi-equity of about Rs.36.90 crore as on March 31, 2018 and promoters have greater financial flexibility to support the operations or capex needs.

JTPL has implemented a large capex of about Rs.44.93 crore for open-ended yarn facility along with other value additions and Corporate Office at Guntur (Andhra Pradesh). The capex is funded out of term loan of Rs.29.05 crore. JTPL plans to stabilise its operations, before venturing into any significant capex. JTPL's operating margins are moderate at 14.83 percent in FY2018; they have improved significantly from 8.75 percent in FY2016 owing to significant investment in captive power.

JTPL reported cash accruals of Rs.13.97 crore in FY2018. Moderate cash accruals and debt led to moderate NCA/TD and interest coverage ratio of 0.13 times and 2.64 times in FY2018 vis-à-vis 0.10 times and 2.31 times in FY2017, respectively. JTPL's cash accruals are expected in the range of Rs.19.00 to Rs.24.00 crore against repayment obligations of about Rs.13.00 crore which gives adequate cushion on its liquidity. Acuite believes that with comfortable profitability margins, and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

• Moderate working capital operations

The company has moderate working capital operations as evident from Gross Current Assets (GCA) of 210 days as on March 31, 2018 as against 163 days as on March 31, 2017. The company maintains an inventory of about 90 to 120 days and gives credit period of 30 days to its customers. Inventory stood at 130 days as on March 31, 2018 as against 92 days as on March 31, 2017; increased due to higher capacity levels, and new facilities of open ended yarn under implementation and ready for operations. Debtors stood at 35 days as on March 31, 2018 as against 37 days as on March 31, 2017. Moderate net worth and accruals lead to moderate utilisation of its working capital limits at about 85 percent over the past six months ended September 2018. The manufacturing operations are carried out throughout the year, though major raw material availability is seasonal leading to working capital intensive operations.

• Susceptibility of operating margins to volatility in raw material prices

Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. However, operating margins increased from 8.75 percent in FY2016 to 14.83 percent in FY2018 supported by captive wind units and operational efficiencies.

Outlook: Stable

Acuite believes that JTPL will maintain a 'Stable' outlook over the medium term from its promoter's entrepreneurial experience and financial flexibility. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex or withdrawal of unsecured loans leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	197.34	189.39	121.69
EBITDA	Rs. Cr.	29.26	26.74	10.65
PAT	Rs. Cr.	13.97	6.32	4.12
EBITDA Margin	(%)	14.83	14.12	8.75
PAT Margin	(%)	7.08	3.33	3.39
ROCE	(%)	10.46	13.46	10.78
Total Debt/Tangible Net Worth	Times	1.68	1.99	2.26
PBDIT/Interest	Times	2.64	2.31	2.86
Total Debt/PBDIT	Times	5.28	4.48	8.46
Gross Current Assets (Days)	Days	210	163	142

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE BBB / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	90.52	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.33	ACUITE BBB / Stable

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About Acuite Ratings & Research:

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